Box 3

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE FIRST QUARTER OF 2012

This box summarises the main results of the euro area bank lending survey for the first quarter of 2012, which was conducted by the Eurosystem between 23 March and 5 April 2012.[1] Overall, euro area banks reported a marked drop in the net tightening of credit standards in comparison with the fourth quarter of 2011. This drop was stronger than expected by survey participants three months earlier for both loans to non-financial corporations and loans to households.

1 The cut-off date of the survey was 5 April 2012. A comprehensive assessment of its results was published on the ECB's website on 25 April 2012.

As regards demand for loans, survey participants reported a sizeable fall in net demand from enterprises and households. While the easing of credit standards mainly mirrors the improvement in banks' access to funding, the strong contraction in loan demand largely reflects a sharp fall in the financing needs of firms for fixed investment on the one hand, and a deterioration in housing market prospects and consumer confidence on the other. The expectations of survey participants point to a further decline in the net tightening of credit standards for loans to enterprises and for loans to households for house purchase. Net demand for loans to enterprises is expected to turn positive in the second quarter of 2012, while the decline in net demand for loans to households is expected to decelerate substantially.

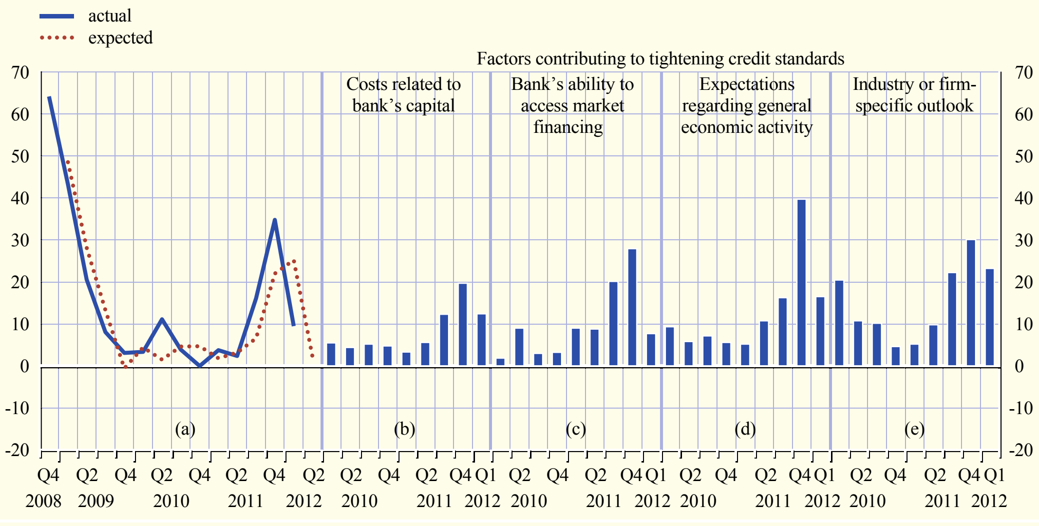
Loans and credit lines to enterprises

Credit standards: In the first quarter of 2012 the net percentage [2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises dropped to 9% (compared with 35% in the previous quarter; see Chart A). This substantial fall in the net tightening was stronger than anticipated by survey participants three months earlier (25%). Credit standards declined in net terms across maturities, on both short-term (3%, down from 24% in the previous quarter) and long-term loans (15%, down from 42%). In addition, the decrease in the net tightening of credit standards applied both to loans to small and medium-sized enterprises (SMEs; 1%, down from 28%) and to loans to large firms (17%, down from 44%).

2 The reported net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have been eased. A positive net percentage indicates that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage indicates that banks have tended to ease credit standards ("net easing").

Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises

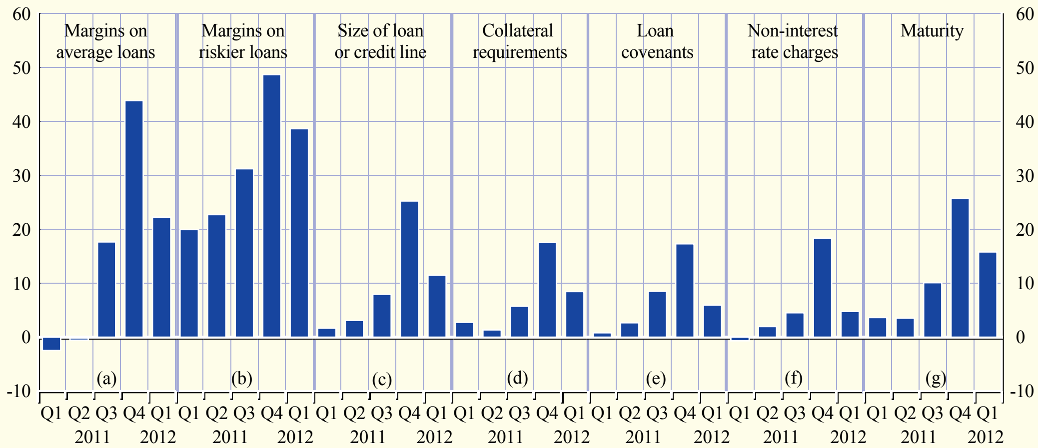
(net percentages)



Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

Chart B Changes in terms and conditions for approving loans or credit lines to enterprises

(net percentages of banks reporting tightening terms and conditions)



Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

Looking at the underlying factors, the overall decrease in the net tightening of credit standards mainly reflected milder pressures from cost of funds and balance sheet constraints, in particular as regards banks' access to funding (8%, after 28% in the previous quarter) and their liquidity position (2%, down from 27%). These developments attest to a substantial positive impact of the two three-year longer-term refinancing operations (LTROs) on banks' funding conditions. In addition, overall risk perceptions contributed less strongly to a tightening of credit standards than in the previous quarter. While expectations regarding the economic outlook contributed substantially less to tighter credit standards (17%, after 40%), the decline in the contribution of industry-specific risks (23%, after 30%) as well as collateral risk (11%, after 19%) to a further tightening was less marked. Moreover, other factors, such as competitive pressures from other banks and non-banks, were reported to have remained broadly neutral as compared with the fourth quarter of 2011.

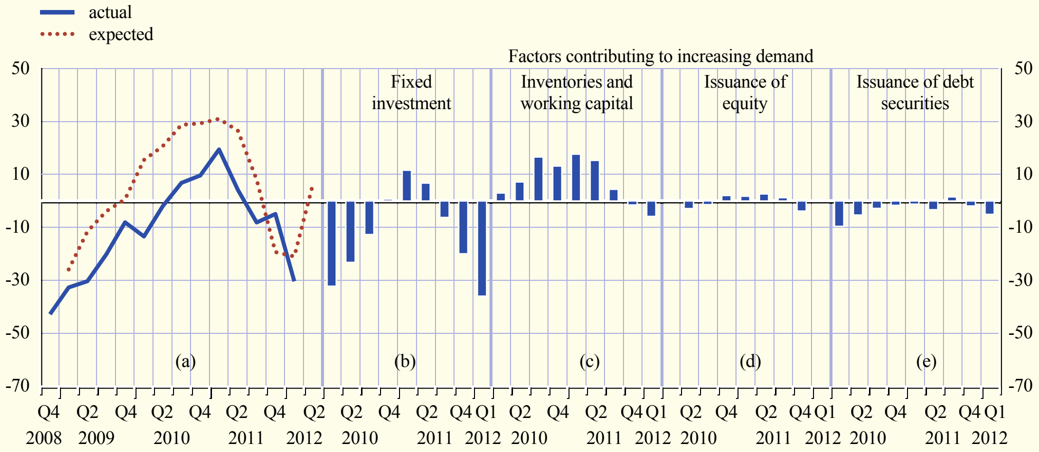
The developments in lending terms and conditions reported by euro area banks overall reflect the strong fall in the net tightening of credit standards in the first quarter of 2012 (see Chart B). The widening of margins was significantly reduced for average loans (22%, down from 44%), but margins on riskier loans remained at high levels (39%, down from 49%), suggesting some degree of risk-related price differentiation by banks. The net tightening was also reduced for other terms and conditions (e.g. non-interest charges, loan size and maturity, and collateral requirements).

Looking ahead, on balance, euro area banks expect a further slight decline in the net tightening of credit standards for loans to enterprises in the second quarter of 2012 (to 2%). Some further tightening is expected to affect large firms (8%) rather than SMEs (2%), as well as primarily long-term loans.

Loan demand: In the first quarter of 2012 net demand for loans from enterprises dropped markedly (-30%, down from -5%) and by more than expected in the previous quarter (-21%). Moreover, the decline appeared to have been stronger for large firms than for SMEs (-26% and

Chart C Changes in demand for loans or credit lines to enterprises

(net percentages)



Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

-23% respectively), thereby reversing the results of the fourth quarter of 2011. Demand for both long-term and short-term loans fell sharply in the first quarter of 2012, to -31% and -19% respectively (from 0% and -4%).

According to survey participants, the fall in demand was mainly driven by a sharp drop in the financing needs of firms for fixed investment (-36%, down from -20% in the fourth quarter of 2011; see Chart C), combined with a decline in financing for mergers and acquisitions (-17%, down from -18%), a slightly negative contribution of financing needs for inventories and working capital (-6%, down from -1%), and a moderate decline related to the higher availability of internal funds.

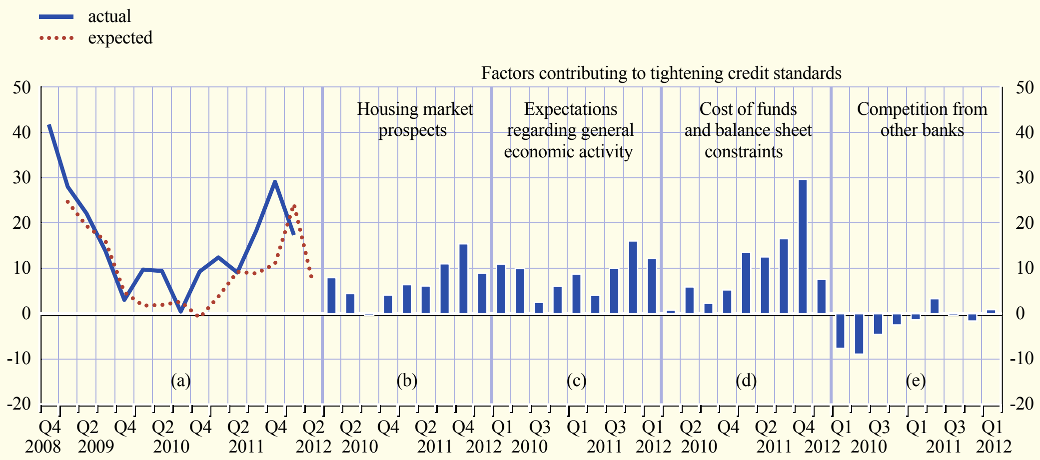
However, looking ahead, banks expect demand for corporate loans to rise in the second quarter of 2012 (7% in net terms). This is expected to apply to a somewhat greater extent to SMEs (7%) than to large firms (3%). As regards maturities, it is expected that this increase would affect short-term loans (7%) more markedly than long-term loans (-1%).

Loans to households for house purchase

Credit standards: In the first quarter of 2012 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase fell by more than expected in the previous quarter, to 17%, from 29% in the fourth quarter of 2011 (see Chart D). According to survey participants, the decrease in the net tightening in the first quarter was mainly driven by a decline in pressures from cost of funds and balance sheet constraints, which was likely to have reflected the positive impact of the two three-year LTROs on banks' funding conditions (a net percentage of only 8% of the survey participants reported a contribution to the tightening of credit standards from such pressures, down from 30% in the previous quarter). In addition, more benign risk perceptions on the part of banks regarding the outlook for general economic

Chart D Changes in credit standards applied to the approval of loans to households for house purchase

(net percentages)



Note: See notes to Chart A.

activity (12%, down from 16%) and housing market prospects (9%, down from 15%) contributed to the decline in the net tightening of credit standards on housing loans.

The reported decline in the net tightening of credit standards on housing loans, however, translated into only a mild moderation in the net tightening of price terms and conditions, notably for margins on average loans (24%, down from 29%), while the widening of margins on riskier loans remained at elevated levels (32%, down from 33%).

Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards on loans for house purchase (7%) for the second quarter of 2012.

Loan demand: In parallel to the decline in net loan demand by firms, participating banks reported a strong contraction in the net demand for housing loans (-43%, down from -27%; see Chart E). This decline appeared to be driven mainly by the ongoing deterioration of housing market prospects (-31%, down from -27%) and consumer confidence (-37%, down from -34%).

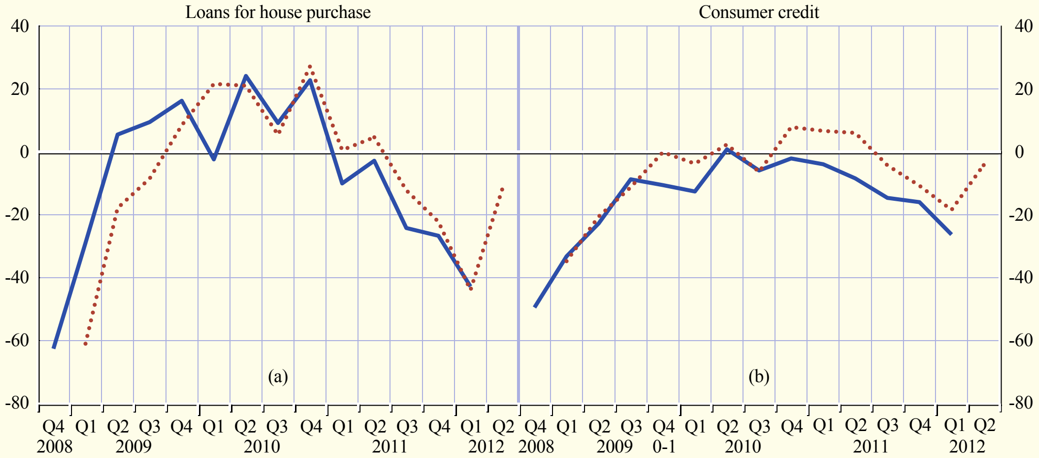
Looking ahead, banks expect a further decline in demand for housing loans (-12% in net terms) for the second quarter of 2012, albeit at a slower pace.

Consumer credit and other lending to households

Credit standards: For the first quarter of 2012 euro area banks reported a decline in the net tightening of credit standards (5%, down from 13%; see Chart F). The main factors driving this easing were cost of funds and balance sheet constraints, as well as improved risk perceptions (related to the economic outlook and consumers' creditworthiness). As for housing loans, the fall in the net tightening did not translate into improved price terms and conditions. The net percentage of banks reporting a further widening in their margins remained at similar levels to the previous quarter, while the contribution of non-price terms and conditions remained broadly neutral.

Chart E Changes in demand for loans to households for house purchase and consumer credit

(net percentages)



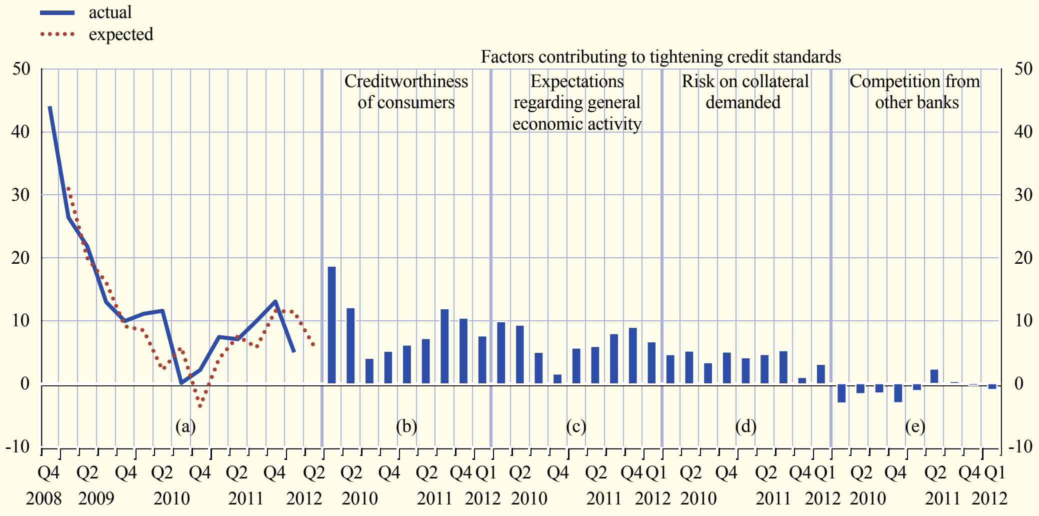
Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

Looking ahead, in net terms, 6% of banks expect a further tightening of credit standards for consumer credit and other lending to households in the second quarter of 2012.

Loan demand: In the first quarter of 2012 net demand for consumer credit was reported to have declined further (-26% in net terms, down from -16% in the previous quarter; see Chart E).

Chart F Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



Note: See notes to Chart A.

This was mainly explained by the negative impact on loan demand from the internal financing of households via higher savings, lower spending on durable consumer goods and a further decrease in consumer confidence.

Looking ahead, banks expect the decline in net demand for consumer credit to decelerate in the second quarter of 2012 (-4% in net terms).

Ad hoc question on the impact of the financial turmoil

As in previous survey rounds, the April 2012 bank lending survey contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to the retail and wholesale funding markets in the first quarter of 2012, and the extent to which they might still have an effect in the second quarter of 2012.

On balance, euro area banks reported a substantial improvement in their access to retail and wholesale funding across all categories, but particularly with regard to money markets and debt securities (see Chart G). In addition, conditions for securitisation appeared to have considerably improved in the first quarter of 2012, both with regard to true-sale securitisation and with regard to banks' ability to transfer risks off their balance sheets (synthetic securitisation). As regards access to retail funding, both short and long-term, banks on average pointed to some improvement in the first quarter of 2012, albeit less than that seen in their access to wholesale funding. Looking ahead, euro area banks expect further – albeit more moderate – improvements in the conditions for access to wholesale funding in the second quarter of 2012 and only a marginal improvement with regard to their retail funding.

Chart G Change in the access to wholesale funding over the past three months

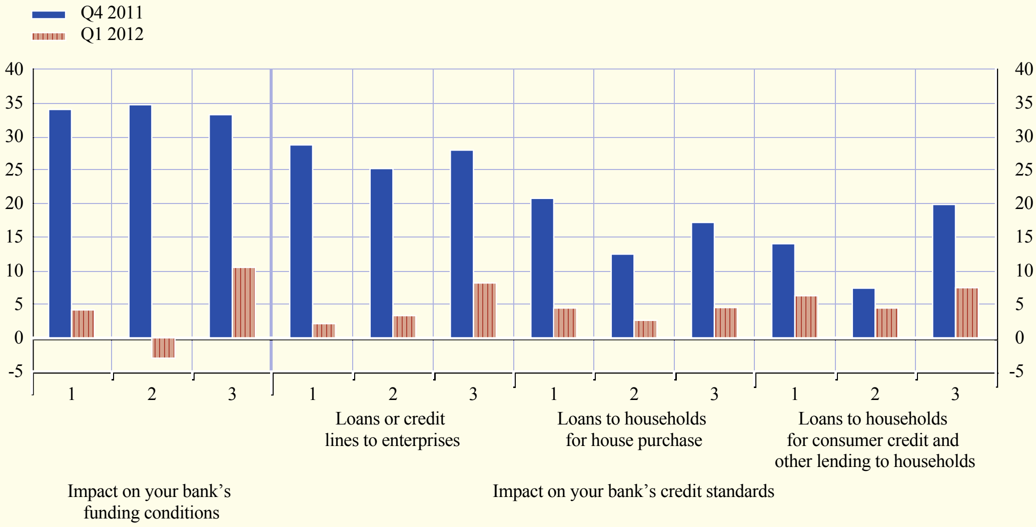
(net percentages of banks reporting deteriorated market access)

1 short-term deposits
2 long-term deposits and other retail funding instruments
3 very short-term money market
4 short-term money market
5 short-term debt securities
6 medium to long-term debt securities
7 securitisation of corporate loans
8 securitisation of loans for house purchase
9 ability to transfer credit risk off balance sheet

Note: The net percentages are defined as the difference between the sum of the percentages for "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

Chart H Impact of the sovereign debt crisis on banks' funding conditions and credit standards

(net percentages of banks reporting an impact on funding conditions or on the tightening of credit standards)



1 Direct exposure to sovereign debt
2 Value of sovereign collateral available for wholesale market transactions
3 Other effects

Note: The net percentages are defined as the difference between the sum of the percentages for "contributed to a deterioration of funding conditions/tightening of credit standards considerably" and "contributed somewhat" and the sum of the percentages for "contributed to an easing of funding conditions/easing of credit standards somewhat" and "contributed considerably".

Ad hoc question on the impact of the sovereign debt crisis on banks' funding conditions and credit standards

The questionnaire for the April 2012 survey included for the second time an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions and their credit standards. On average, only 4% of euro area banks in net terms – compared with 34% in the fourth quarter of 2011 – attributed the deterioration in funding conditions to the sovereign debt crisis through either direct exposure to sovereign debt, reduced collateral value of government bonds or other effects. In fact, increased collateral value for the first quarter of 2012 was even quoted as a reason for improved funding conditions. A similar percentage of banks – in net terms – indicated an impact on the tightening of their credit standards (about 5% on average both for loans to non-financial corporations and for loans to households; see Chart H). This suggests that, despite the substantially lower impact of the sovereign debt crisis following the two recent three-year LTROs, banks were not able to fully shield their lending policy from the remaining balance sheet and liquidity constraints associated with the sovereign debt tensions.